CONSUMER FINANCIAL PROTECTION BUREAU | JULY 2019

Market Snapshot: Third-Party Debt Collections Tradeline Reporting

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1. Introduction[1]

This report provides a brief overview of two types of third-party debt collections[2] tradelines reflected on credit reports compiled by the nationwide consumer reporting agencies (NCRAs)[3]—debt buyer tradelines and non-buyer debt collections tradelines.[4] Debt buyers purchase portfolios of charged-off debt from creditors, generally for a fraction of the original face value of the debt. By contrast, the majority of debt collectors, measured by revenue, attempt to collect debt that is still owned by the original creditor.[5] It is possible for a single debt collections firm to collect both on debts it owns and debts that others own.

A tradeline is information about a consumer account that is sent, generally on a regular basis, to a consumer reporting agency.[6] Tradelines contain data such as the account balance, payment history, and the status of the account (e.g. current, past due, or charged-off). Debt collections tradelines, which are considered negative, generally may appear on a consumer report for up to

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[1] Report prepared by Michael Furey and Ryan Kelly.

[2] The term "third-party debt collections" refers to a situation where collections on a consumer account are not handled by the original creditor. When a creditor collects on its own account, the term used is "first party debt collections."

[3] The three NCRAs are Equifax, Experian, and TransUnion. These three firms are sometimes referred to as "credit bureaus."

[4] Debt collections tradelines that are not listed as being from debt buyers are referred to in this report as "non-buyer tradelines." Debt collectors usually work traditional, non-buyer accounts on a contingency fee basis while they work buyer accounts by purchasing portfolios of accounts and keeping all of what they collect.

[5] See Section 2.1 in: CFPB, "Fair Debt Collection Practices Act: CFPB Annual Report 2018" available at, https://www.consumerfinance.gov/data-research/research-reports/fair-debt-collection-practices-act-annual-report-2018/

[6] Information is typically sent to consumer reporting agencies monthly.

seven years.[7] Credit scoring models, such as those produced by FICO or VantageScore, use the information contained in tradelines to generate a consumer's credit score.[8]

An entity that sends information that relates to consumers to a consumer reporting agency for inclusion in consumer reports is known as a "furnisher."[9] A consumer may dispute information in his or her credit file under the Fair Credit Reporting Act (FCRA) indirectly with a consumer reporting agency, directly with the furnisher, or both. If a consumer files a dispute with the consumer reporting agency, the consumer reporting agency is generally required to investigate the consumer's claim to determine if the disputed information is accurate, which includes notifying the furnisher of the dispute so that the furnisher can conduct an investigation. If a consumer files a dispute with the furnisher, the furnisher is generally required to investigate the consumer's claim to determine if the disputed information is accurate.[10] The furnisher may not thereafter furnish the information to any consumer reporting agency without notice that the information is disputed by the consumer, in which case the consumer reporting agency must indicate that fact in each consumer report that includes the disputed information. If a consumer disagrees with the outcome of a completed investigation by a consumer reporting agency, the consumer may file a brief statement setting forth the nature of the dispute and the consumer reporting agency generally must, in any subsequent consumer report containing the disputed information, clearly note that it is disputed by the consumer and provide either the consumer's

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[7] The length of time that a tradeline persists as part of a consumer's credit record depends on the type of tradeline and whether the information contained is positive or negative. For more information, see, for instance: Ask CFPB, "How Long Does Information About Me Stay On My Consumer Report" available at https://www.consumerfinance.gov/ask-cfpb/how-long-does-information-about-me-stay-on-my-consumer-report-en-1121/

[8] For more information on these credit scores, see: FICO, "What is a FICO Score?" available at https://www.myfico.com/credit-education/credit-report-credit-score-articles/ and VantageScore, "Understand Your Score: What Do These Three Numbers Say About You?" available at https://your.vantagescore.com/understand.

[9] For more information on credit reporting markets, see: CFPB, "Key Dimensions and Processes in the U.S. Credit Reporting System: A Review of How the Nation's Largest Credit Bureaus Manage Consumer Data" available at https://www.consumerfinance.gov/data-research/research-reports/key-dimensions-and-processes-in-the-u-s-credit-reporting-system/.

[10] There are certain exceptions to these requirements. For instance, consumer reporting agencies and furnishers are not required to investigate disputes they reasonably determine to be irrelevant or frivolous. Also, certain disputes filed with a consumer reporting agency may be handled internally by the consumer reporting agency.

statement or a summary of that statement. While some credit scoring models ignore certain information from tradelines indicating an active dispute, these models may factor in information from accounts where a dispute is considered resolved, even if the consumer disagrees with the results of the investigation.[11]

This report considers only tradelines furnished by entities other than the original creditor, which it refers to as "third-party debt collectors."[12] Starting with the universe of third-party debt collections tradelines, any tradelines listed as coming from debt buyers are flagged as "buyer tradelines." Any third-party collections tradelines not listed as coming from debt buyers are flagged as "non-buyer tradelines." "Total third-party collections" refers to the universe of third-party collections tradelines and includes all buyer and non-buyer tradelines.

This report is based on information from the CFPB's Consumer Credit Panel (CCP), which is a longitudinal, nationally representative sample of approximately five million de-identified credit records from one of the three NCRAs. The figures in this report cover various time periods, each beginning with the time period when the data for which the analysis is conducted becomes available in the CCP.

[11] See, for instance: Ask CFPB, "Will I Damage My Credit Score If I Do Not Pay a Portion of My Bill That I Am Disputing?" available at https://www.consumerfinance.gov/ask-CFPB/will-i-damage-my-credit-score-if-i-do-not-pay-a-portion-of-my-bill-that-i-am-disputing-en-66/.

[12] Designating an entity as a "third-party debt collector" for purposes of this report is not intended to suggest anything about whether the debt collector is subject to the FDCPA.

2. Overall Findings

- As of Q2 2018, over one in four consumers in the sample had a third-party collections tradeline on their file. Between Q2 2004 and Q2 2018, the percentage of consumers in the sample with a third-party collections tradeline on their file never went below 27% or above 34%.

- There was considerable volatility in the number of reported third-party collections tradelines over the past fifteen years. The number of buyer tradelines grew by more than 350 percent between Q2 2004 and Q3 2009 and then declined through Q4 2016, when the number was 50 percent higher than Q2 2004 levels. For non-buyer tradelines, the period of growth in the number of reported tradelines was longer but less steep; these tradelines continued to grow until Q1 2013 and peaked at a number over 75 percent higher than the Q2 2004 baseline. The number reported then fell, with the number of non-buyer tradelines reported in Q2 2018 only 11 percent higher than the Q2 2004 level.

- These trends in the reporting of third-party collections tradelines by buyers and non-buyers necessarily changed the composition of the reported tradelines. In Q2 2004, fewer than 10 percent of reported third-party collections tradelines were attributable to buyers. In Q2 2009, when the furnishing of buyer tradelines peaked, those tradelines accounted for 22.5 percent of reported tradelines. As of Q2 2018, the comparable percentage was 12.5 percent.

- Although the number of third-party collections tradelines in our sample has increased over the last 15 years, the number of collectors furnishing such tradelines has declined 60 percent from its peak. There are an estimated 9,330 debt collectors and debt buyers in the United States, but our sample only had 898 furnishers of third-party collections tradelines in Q2 2018.

- There was much greater concentration in reporting among buyer furnishers than non-buyer furnishers. In Q2 2018, the top four largest debt buyers by tradelines reported 90 percent of buyer tradelines while the top four largest non-buyers by tradelines reported 13 percent of non-buyer tradelines.

- As of Q2 2018, about two-thirds of non-buyer tradelines indicated medical debt. In contrast, buyer tradelines primarily indicated banking, retail, and financial debt while only 1 percent of buyer tradelines showed medical debt. Medical debt accounted for 58 percent of total third-party collections tradelines in Q2 2018.

- More than three out of four (78 percent) total third-party debt collections tradelines were for medical, telecommunications, or utilities debt in Q2 2018; these represent non-financial debts where positive payment information is generally not reported to consumer reporting agencies.

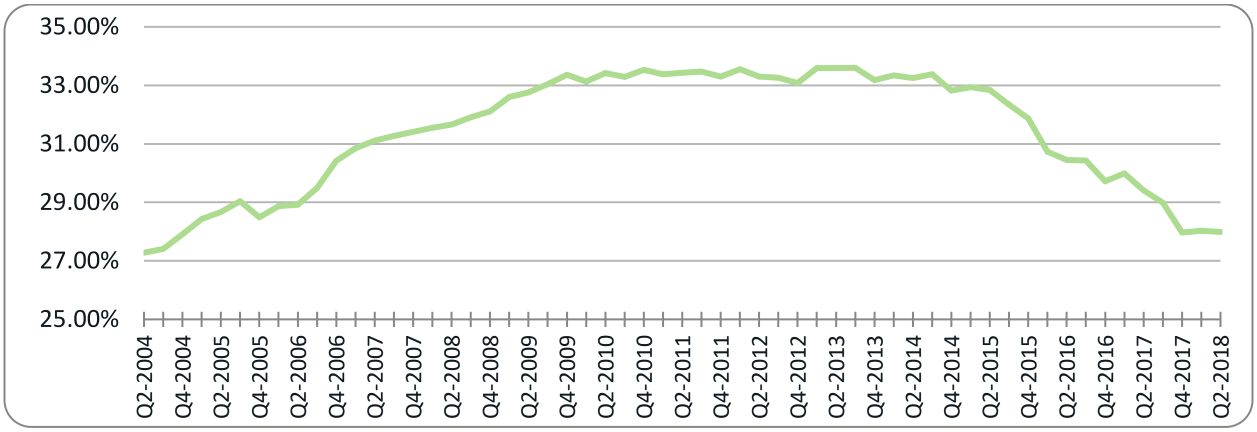
- In Q2 2018, .09 percent of total third-party collections tradelines in the sample indicated a new consumer disagreement with the result of a FCRA dispute investigation. This was triple the incidence of such disagreements submitted in Q2 2012. This growth was driven by trends in buyer tradelines: between Q2 2012 and Q2 2018, the percentage of buyer tradelines in the sample with new instances of this status grew from .07 percent to .56 percent while the percentage of non-buyer tradelines in the sample with new instances of this status was roughly steady at around .02 percent.

All of the findings above are descriptive and the data do not allow for a conclusion on the cause of the effects observed.

3. Detailed Findings

Percentage of Consumers with a Third-Party Collections Tradeline

FIGURE 1: PERCENTAGE OF CONSUMERS IN THE SAMPLE WITH AT LEAST ONE THIRD-PARTY COLLECTIONS TRADELINE



As of Q2 2018, more than one-in-four consumers (28 percent) in the sample had a third-party collections tradeline on their file. Figure 1 shows that between Q2 2004 and Q2 2018, the percentage of consumers in the sample with a third-party collections tradeline on their file never went below 27% or above 34%.

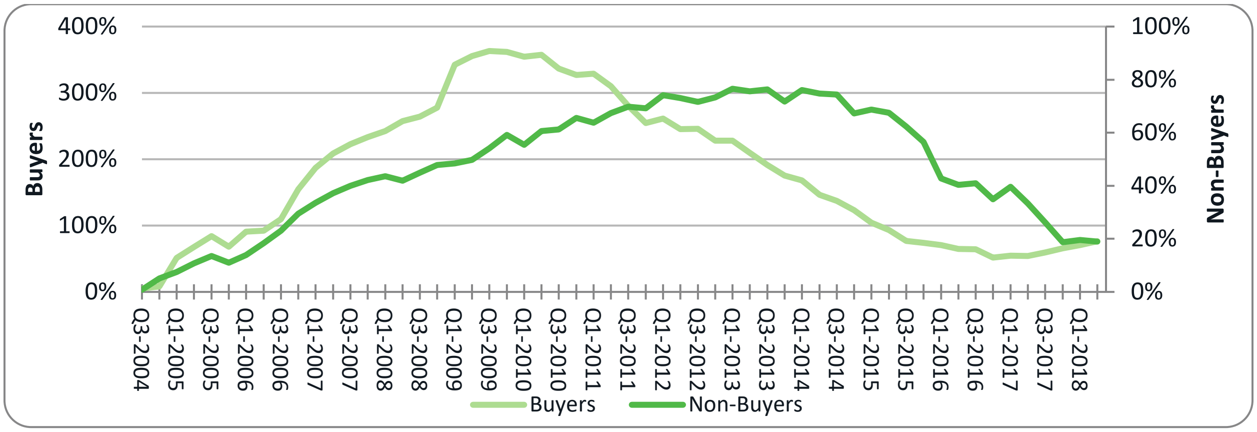
Because third-party collections tradelines can generally remain on a credit record for up to seven years, the presence of such a tradeline is not necessarily an indication that the debt collector is actively seeking to collect from the consumer.[13] One alternative measurement looks at the percentage of credit files on which a new third-party collections tradeline appears within the preceding 12 months. Using that measurement, as of Q2 2018, 13 percent of consumer

[13] However, a tradeline may affect the consumer's credit score as long as it appears on a credit report regardless of whether debt collectors are actively seeking to recover on it. It should also be noted that debt collectors may attempt to collect on accounts without reporting a tradeline. In fact, a prior Bureau survey found that almost 80 percent of consumers who were contacted by debt collectors about a single debt in collection in the prior year did not have a new collections tradeline, and about half of consumers who reported having been contacted about two or more debts in the prior year had no new collections tradeline. See: CFPB, "Consumer Experiences with Debt Collection: Findings from the CFPB's Survey of Consumer Views on Debt" available at, https://www.consumerfinance.gov/about-us/newsroom/cfpb-survey-finds-over-one-four-consumers-contacted-debt-collectors-feel-threatened/

credit files in the CCP contained a new collections tradeline.[14] Note that not all newly reported collections accounts are necessarily the subject of collections activity whereas older collections accounts may be, so that this measurement is an imprecise means of measuring collections activity.

Changes in Third-Party Debt Collections Tradelines Reported

FIGURE 2: PERCENTAGE CHANGE IN TRADELINES REPORTED IN THE SAMPLE RELATIVE TO Q2 2004 LEVELS



As shown in Figure 2, the number of buyer tradelines in the sample increased more than 350 percent between Q2 2004 and Q3 2009. The number of buyer tradelines in the sample then fell until Q4 2016, when the number was 50 percent higher than Q2 2004 levels. The number of buyer tradelines reported then turned upwards, reaching a number 75 percent higher than Q2 2004 levels by Q2 2018. The number of non-buyer tradelines in the sample increased over 75 percent between Q2 2004 and Q1 2013. It then fell, with the number of non-buyer tradelines reported in Q2 2018 only 11 percent higher than the Q2 2004 level.

These data may reflect changes in the number of collection accounts being handled by buyers and non-buyers; the increases observed through 2012 for non-buyers and 2009 for buyers is consistent with the fact that during and after the Great Recession, an increasing share of

[14] This is similar to the measurement that the Federal Reserve Bank of New York reports in its Quarterly Report on Household Debt and Credit. For more information, see: FRBNY Center for Microeconomic Data at https://www.newyorkfed.org/microeconomics/hhdc.html.

consumers fell behind on their bills.[15] These data may also reflect changes in the practice of furnishing information on such accounts.

Share of Third-Party Collections Tradelines Reported by Buyers

FIGURE 3: PERCENTAGE OF TOTAL THIRD-PARTY COLLECTIONS TRADELINES REPORTED BY BUYERS

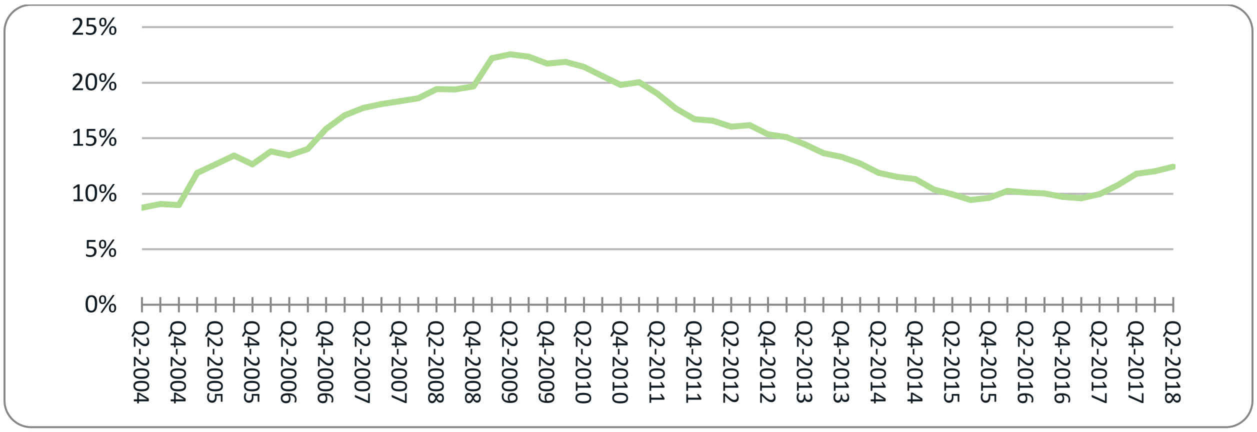


Figure 3 shows that buyers have never reported more than 25 percent of the total third-party collections tradelines in the sample. However, the composition of total third-party collections tradelines furnished by buyers and non-buyers changes over time. Between Q2 2004 and Q2 2009, the share of total third-party collections tradelines reported by buyers increased over 150 percent. The share then fell steadily, reaching levels similar to 2004 by 2015 before turning upward slightly. Buyers reported 12.5 percent of collections tradelines in Q2 2018.

Number of Third-Party Debt Collections Furnishers

There are an estimated 9,330 debt collectors and debt buyers in the United States, but only an estimated 4,000 have any paid employees.[16] Most debt collectors are small (roughly 98 percent are small businesses as defined by the Small Business Administration) and therefore unlikely to

[15] The number of delinquent and severely derogatory consumer credit accounts was high by historical standards during this period. For more information, see: https://www.newyorkfed.org/microeconomics/hhdc.html.

[16] See the discussion on page 425-427 in CFPB, "Proposed Rule with Request for Public Comment to Implement the Fair Debt Collection Practices Act" available at, https://www.consumerfinance.gov/about-us/newsroom/bureau-proposes-regulations-implement-fair-debt-collection-practices-act/.

report to any consumer reporting agency.[17] Indeed, based on data in the CCP, it appears that only a small fraction of collectors furnish third-party collections tradeline information. In Q2 2018, there were just under 900 unique furnishers of third-party collections tradelines in our sample. As the CCP is a 1-in-48 sample at the credit report level, it is probable that some furnishers of third-party collections tradelines were not captured. Furthermore, many collectors likely reported to only a single NCRA and so may be missed in the CCP which is based on data from one NCRA. Table 1 shows the number of unique furnishers of third-party collections tradelines reported in Q2 of each year in the CCP.

TABLE 1: TOTAL NUMBER OF UNIQUE FURNISHERS OF THIRD-PARTY COLLECTIONS TRADELINES IN THE SAMPLE REPORTED IN Q2 OF EACH GIVEN YEAR

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Buyer	57	73	100	132	157	162	155	149	133	107	88	54	47	42	40
Non-Buyer	2,253	2,255	2,175	2,150	2,150	2,139	2,074	1,984	1,833	1,669	1,547	1,393	1,222	986	872
Total Third-party Collectors	2,294	2,298	2,244	2,237	2,249	2,235	2,168	2,082	1,923	1,741	1,608	1,429	1,253	1,013	898

The number of unique total third-party collections tradeline furnishers in the sample peaked at 2,298 in 2005, but then fell 61 percent to 898 in 2018.[18] The total number of unique buyer furnishers peaked at 162 in Q2 2009, but then fell 75 percent to 40 by Q2 2018. The total number of unique non-buyer furnishers peaked at 2,255 in Q2 2005, but then fell 60 percent to 898 in Q2 2018.

[17] See page 8 in: CFPB, "Fair Debt Collection Practices Act: CFPB Annual Report 2018" available at, https://www.consumerfinance.gov/data-research/research-reports/fair-debt-collection-practices-act-annual-report-2018/.

[18] The number of unique buyer furnishers added to the number of unique non-buyer furnishers is higher than the total number of third-party collections tradeline furnishers because some firms report both buyer and non-buyer tradelines.

In Q2 2018, the top four debt buyers furnished 90 percent of buyer tradelines, up from 66 percent in Q2 2004.[19] In Q2 2018, the top four non-buyers furnished 13 percent of non-buyer tradelines, up from 10 percent in Q2 2004. This increased concentration of third-party collections tradelines reported by larger furnishers, especially non-buyer furnishers, coupled with the decline in the number of unique buyer and non-buyer furnishers may reflect ongoing consolidation in the collections industry, a change in the furnishing practices of smaller entities relative to larger entities, the furnishing practices of buyers relative to non-buyers, or some combination of all of these.[20]

Types of Third-Party Collections Tradelines Accounts

There is a marked difference in the types of third-party collections tradelines reported by buyers as compared to non-buyers. Figure 4 shows that buyer tradelines primarily reported banking, retail, and financial debt while Figure 5 shows that roughly two-thirds of non-buyer tradelines reported medical debt in Q2 2018. By comparison, only about 1 percent of buyer tradelines reported medical debt in Q2 2018. The buyer focus on banking and financial debt may stem, at least partially, from the historical origins of debt buying as a response to the savings and loan crisis of the late 1980s.[21]

[19] In fact, 64 percent of buyer tradelines came from just the two largest debt buyers in Q2 2018, up from 45 percent in Q2 2004. The largest debt buyers furnish almost exclusively buyer tradelines. The four largest debt buyers were responsible for only one non-buyer tradeline in the sample in Q2 2018.

[20] See Section 8.2 in: CFPB, "The Consumer Credit Card Market 2017 Report" available at https://www.consumerfinance.gov/data-research/research-reports/the-consumer-credit-card-market-2017/.

[21] For more information on the history of debt buying, see Section IV, part B in: FTC, "The Structure and Practices of the Debt Buying Industry" available at https://www.ftc.gov/reports/structure-practices-debt-buying-industry.

FIGURE 4: DISTRIBUTION OF ORIGINAL CREDITOR TYPE AMONG BUYER TRADELINES IN THE SAMPLE IN Q2 2018

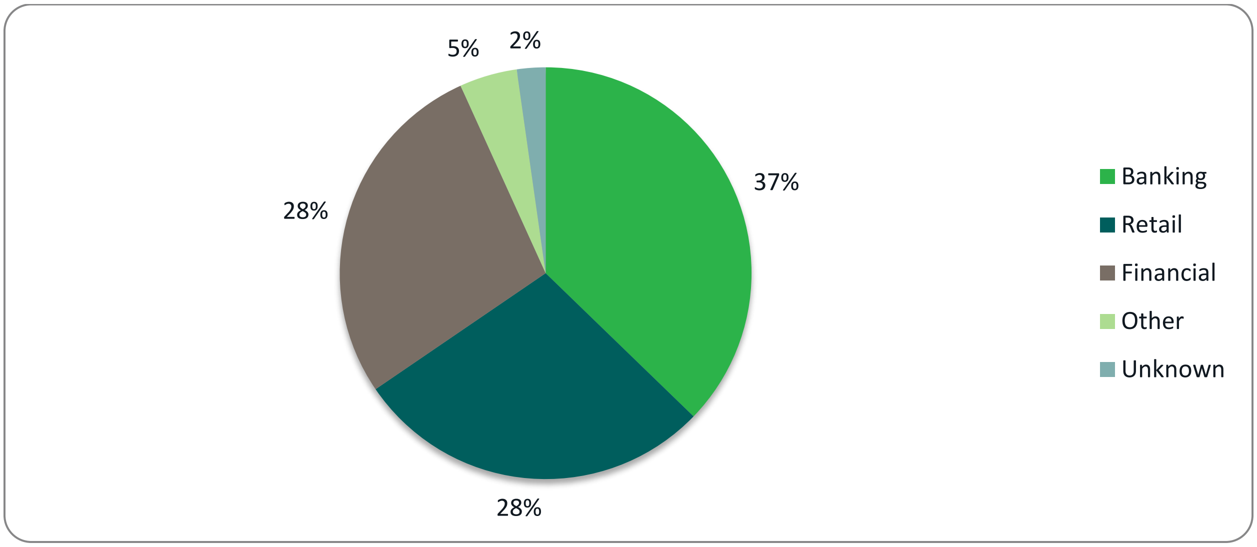


FIGURE 5: DISTRIBUTION OF ORIGINAL CREDITOR TYPE AMONG NON-BUYER TRADELINES IN THE SAMPLE IN Q2 2018

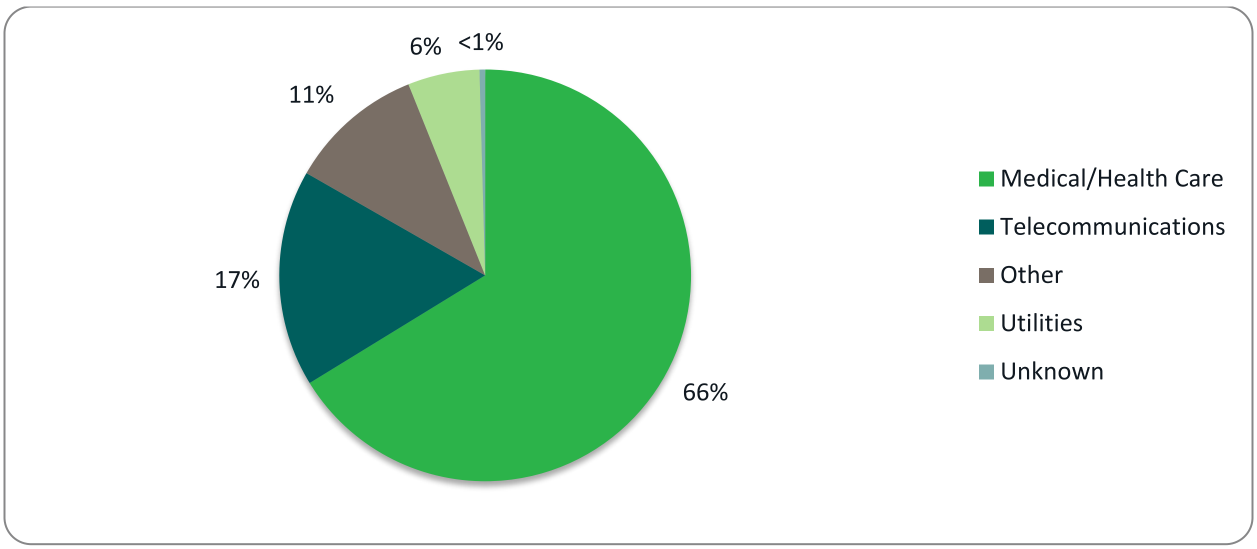
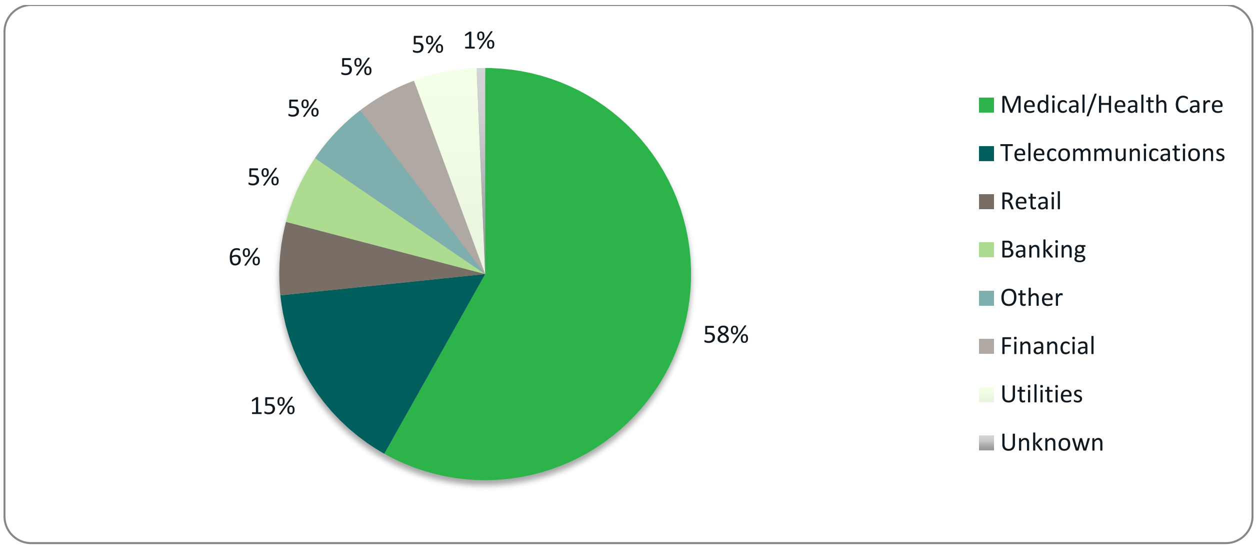


Figure 6 shows the original creditor type for all third-party collections tradelines. As non-buyers furnished most third-party collections tradelines, the distribution for all firms in the market resembles the non-buyer distribution. Total third-party debt collections tradelines

primarily reported medical, telecommunications,[22] retail, banking, financial, or utilities debt in Q2 2018. More than half (58 percent) of total third-party debt collections tradelines were for medical debt alone. More than three out of four (78 percent) total third-party debt collections tradelines were for either medical, telecommunications, or utilities debt; these represent non-financial debts where positive payment information is generally not reported to consumer reporting agencies. The largest single furnisher of total third-party collections tradelines furnished just 5.5% of the total third-party debt collections tradelines in Q2 2018.

FIGURE 6: DISTRIBUTION OF ORIGINAL CREDITOR TYPE AMONG TOTAL THIRD-PARTY COLLECTIONS TRADELINES IN THE SAMPLE IN Q2 2018



It is interesting to contrast these data with estimates as to the sources of collection industry revenue. In particular, a leading industry analyst estimates that healthcare, which represents 58 percent of reported third-party collections tradelines, only generates 11 percent of collection industry revenue.[23] This may reflect differences in the reporting of different types of collections

[22] For a more comprehensive view of telecommunications debt collection, see: CFPB, "Quarterly Consumer Credit Trends: Collection of Telecommunications Debt" available at https://www.consumerfinance.gov/data-research/research-reports/quarterly-consumer-credit-trends-telecommunications-debt-collection/.

[23] See Section 2.1 in: CFPB, "Fair Debt Collection Practices Act: CFPB Annual Report 2018" available at, https://www.consumerfinance.gov/data-research/research-reports/fair-debt-collection-practices-act-annual-report-2018/.

accounts, differences in the revenue generated per account across different types of accounts, or a combination of the two.

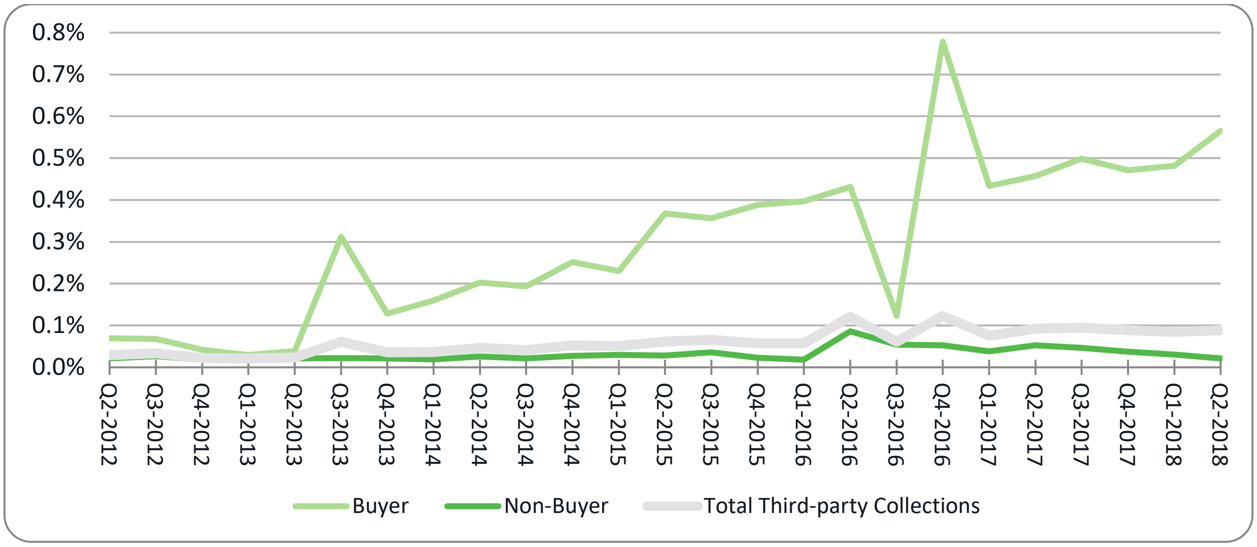
Disputes

Prior CFPB research has found that, under the FCRA, consumers dispute third-party collections tradelines at a greater rate than they dispute other types of tradelines. For example, in 2011 disputes were filed with respect to over 1 percent of third-party collections tradelines compared to .29 percent for student loans, the next highest category.[24] This in part reflects the fact that third-party collections tradelines are inherently negative so that consumers have a larger incentive to dispute these tradelines, but it may also reflect differences in the underlying accuracy of the data.

As previously noted, a consumer may dispute information in his or her credit file indirectly with a consumer reporting agency, directly with the furnisher, or both. If a consumer disagrees with the outcome of a completed investigation of a dispute by a consumer reporting agency, the consumer may file a brief statement setting forth the nature of the dispute and the consumer reporting agency generally must, in any subsequent consumer report containing the disputed information, clearly note that it is disputed by the consumer and provide either the consumer's statement or a summary of that statement. If a consumer files a dispute with a furnisher, the furnisher may not thereafter furnish the information to any consumer reporting agency without notice that the information is disputed by the consumer, in which case the consumer reporting agency must indicate that fact in each consumer report that includes the disputed information. Figure 7 reports for each quarter the number of tradelines with a new flag compared to the total number of tradelines for buyers, non-buyers, and the total third-party collections market.

[24] See Section 7.2 in: CFPB, "Key Dimensions and Processes in the U.S. Credit Reporting System: A Review of How the Nation's Largest Credit Bureaus Manage Consumer Data" available at https://www.consumerfinance.gov/data-research/research-reports/key-dimensions-and-processes-in-the-u-s-credit-reporting-system/.

FIGURE 7: PERCENTAGE OF TOTAL TRADELINES REPORTED IN THE SAMPLE WHICH INDICATE NEW INSTANCES OF CONSUMER DISAGREEMENT WITH A COMPLETED FCRA DISPUTE INVESTIGATION[25]



The percentage of buyer tradelines in the sample that showed a new instance of consumer disagreement with a completed FCRA investigation was small in absolute terms throughout the observation period. However, it has increased steadily, with a few fluctuations. For non-buyer tradelines, it has been very low and close to flat.[26] By Q2 2018, 0.09 percent of total third-party collections tradelines, 0.6 percent of buyer tradelines, and 0.02 percent of non-buyer tradelines showed new instances of this status. In Q2 2012, 0.03 percent of total third-party collections tradelines, 0.07 percent of buyer tradelines, and 0.02 percent of non-buyer tradelines showed new instances of this status.

Some of the differences highlighted here may reflect differences in furnishing practices between buyers and non-buyers.[27] Also, the likelihood of errors in furnishing resulting in a consumer

[25] As discussed above, the debt buying market is highly concentrated with four firms furnishing roughly 90% of the tradelines by Q2 2018. Therefore, the spikes in this data series may be the result of furnishing issues at a small number of debt buyers.

[26] If a furnisher were to start and stop furnishing a given tradeline multiple times over its life, this measure could be artificially inflated. This report does not explore such patterns.

[27] In particular, it is possible that non-buyers are more likely to return accounts to the original creditor if they receive a dispute rather than continuing to report the tradeline. Buyers may also be able to return an account to the original creditor in certain situations, but “put back” language in debt purchase and sale agreements often limits

dispute may increase if a given debt is placed with a succession of non-buyers or sold and resold among buyers.[28] The data do not allow for a conclusion on the cause of the effects observed.

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this option. For more information, see Section V, part F in: FTC, "The Structure and Practices of the Debt Buying Industry," available at https://www.ftc.gov/reports/structure-practices-debt-buying-industry/.

[28] For more information, see Section 7.2 in: CFPB, "Key Dimensions and Processes in the U.S. Credit Reporting System: A Review of How the Nation's Largest Credit Bureau's Manage Consumer Data" available at https://www.consumerfinance.gov/data-research/research-reports/key-dimensions-and-processes-in-the-u-s-credit-reporting-system/.